DRN-4949651

The complaint

Mr B complains that Scottish Widows Limited has not provided a satisfactory explanation for the significant loss in value of his personal pension policy.

What happened

Mr B had a stakeholder pension plan with Scottish Widows. He commenced the plan in 2014 and stopped making contributions in 2016. He says that, at that time, the policy was worth around £10,500.

In February 2024 Mr B contacted Scottish Widows about the policy. He says he'd not received any correspondence from Scottish Widows for at least seven years.

Scottish Widows sent him information about the plan. It said the plan value was just under £8,700 on 16 February 2024.

Mr B requested that the entire amount should be paid to him as a single lump sum payment. The payment was sent to him on 18 March 2024. The pension was valued at just under £8,800 at the date of payment.

Mr B complained to Scottish Widows. He said the value of his pension had decreased by around 20% even though he understood it was "low risk." Scottish Widows had been taking fees for administration. So, he thought it was unreasonable for the policy to have lost so much value.

Scottish Widows investigated Mr B's complaint. It said it wasn't able to control the factors which had led to the decrease in the value of his plan. This had been caused by external forces such as the rate of inflation, interest rates and the general short/medium term economic outlook. It agreed to send Mr B the five year performance history which he'd asked for.

Mr B wasn't satisfied with this response. He referred his complaint to our service. He said the main issues were:

- the value had decreased by almost £2,000 – a loss of around 20% despite the fact that the pension was supposed to be low risk; and
- there'd been no explanation for the loss. He thought Scottish Widows should account for the loss given that it had taken administration fees.

Mr B also commented on the fact that Scottish Widows hadn't contacted him for over seven years.

Our investigator looked into his complaint. He said we couldn't look into what Mr B had said about not having been contacted for over seven years. Mr B needed to raise that matter with Scottish Widows and give it an opportunity to respond before we could consider this issue. However, we could consider the other issues Mr B had raised.

Our investigator said he understood the frustration Mr B felt because of the decrease in the value of his pension. But, having looked at the 2023 annual pension statement he thought Scottish Widows had provided details about the past performance of the funds in which Mr B's plan was invested and it had provided an overview of the investment market over the previous year. He said there'd been multiple factors during 2022 and 2023 which had impacted the value of Mr B's plan. He said he couldn't find any evidence of mismanagement of the plan since the pension had been invested in line with Mr B's investment choices.

Mr B didn't agree. He said Scottish Widows was paid to invest - taking market volatility into account. It should have changed its strategy to deal with market volatility. He also queried why it had continued to charge fees when it was getting negative results. He said he'd relied on Scottish Widows as they were "experts" in these matters. He reiterated that he'd never been sent any annual statements.

Our investigator considered what Mr B said. But he didn't change his view. So, the complaint has been passed to me to decide.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

First I'd just point out that I can't consider what Mr B has said about not receiving annual statements or contact from Scottish Widows over a period of several years. As our investigator said, he needs to raise those matters with Scottish Widows first and give it a chance to respond. So, in this decision, I will only be considering the issues Mr B has raised about the decrease in value of his pension and what he's said about not having been given an adequate explanation for this decrease.

The Lifestyling Strategy

It's important to set out the basis of the relationship between Mr B and Scottish Widows.

Mr B's pension had been with Scottish Widows since around 2014. His pension savings were originally set up to be invested via a lifestyling approach. That was the usual "default" investment strategy which applied to a pension such as Mr B's and would usually have been determined by his employer. Mr B could've chosen a different investment strategy at any time or he could've engaged a financial adviser to help him to change the investment strategy that applied to his policy. There's no evidence he did do that.

Mr B's plan was invested in the Scottish Widows "Balanced targeting annuity Series T Lifestyling Programme."

In general terms this strategy meant that Mr B's investments would alter as he approached his normal retirement age to reduce their risk. And, in general terms, the strategy was designed for circumstances where the proceeds would be used to purchase an annuity policy – as the name of the fund where Mr B's plan was invested indicates.

The lifestyle strategy sought to reduce risk as Mr B approached retirement age.

I've looked at the information Scottish Widows produced about Mr B's plan. The annual statements showed that in April 2022 the plan value was around £9,750. One year later (April 2023) it had dropped to around £8,450 and by March 2024, when Mr B encashed the plan, the value was just under £8,800. So, a significant decline in the value of the policy had occurred during the 2022/2023 period.

The annual statements also included information about how Mr B's policy was invested. In February 2024 Scottish Widows provided further information to Mr B in response to a request he'd sent it. The information set out details about how his policy was invested at that time.

Around one third of his funds were invested in the Scottish Widows Cash Pension (Series 3) fund and the remainder of his funds were invested in the Scottish Widows Pension Protector (Series 3) fund.

The Cash Pension fund was invested mainly in short-term securities. The nature of a cash fund is such that the investments tend to be low risk and accessible – which is why they can be suitable as part of a pension portfolio in the run up to retirement. The fact sheet for this fund explains that in times of low interest rates the fund's growth will not cover the total fund charges. So, the fund had relatively low potential for investment growth.

The Pension Protector fund was invested mainly in long-dated bonds. The price of long-dated bonds is one of the key factors affecting the cost of buying an annuity – so, although there were no guarantees, the value of this fund should rise and fall broadly in line with the cost of buying an annuity. I can see that the past performance graph for this fund showed that although there'd been a positive return of around 12.7% for the year ended April 2020, there'd been negative returns of 13.6% (for the year ended April 2022) and 22.5% (for the year ended April 2023). The plan information stated that past performance was not a guide to future performance.

I'll comment further below about market volatility at this time and how it impacted the investment returns on Mr B's policy.

Having thought about how Mr B's policy was invested, I'm not persuaded Scottish Widows did anything wrong here. I say that for mainly the following reasons.

Mr B's policy was invested in line with the lifestyle strategy which applied to his pension. The two funds I've referred to above (which consisted mainly of cash and long-dated bonds) are generally considered to be low-risk investments. However, that doesn't mean there is no risk - all investments carry risk. The annual statements included warnings that the value of the investment could go down as well as up and could fall below the amounts paid in.

As I've mentioned above, the lifestyle strategy was designed to target the purchase of an annuity at retirement age. Bonds and annuity rates tend to move in opposite directions, such that when interest rates increase, the value of long-dated bonds go down and annuity rates go up. So, the aim of the lifestyling strategy was to seek to ensure that the level of retirement income Mr B might achieve (by way of an annuity) was less likely to dramatically change if, for example, the value of his fund – which was largely invested in bonds – moved down in the run up to his retirement.

Scottish Widows was not Mr B's financial advisor. It simply acted on the instructions it had been provided with. It wasn't for Scottish Widows to ensure that any investment choices were suitable for Mr B's needs – those were essentially decisions he needed to make for himself or with the support of a financial advisor. Mr B doesn't appear to have requested any change to the investment strategy. That meant Mr B's pension investments would have altered as he approached and reached his normal retirement age, in the way I've set out above.

Having considered everything here, including the plan information, I've not been provided with anything which suggests that Mr B's pension was not invested in line with the lifestyling strategy which applied to his policy. And, I'm satisfied, on balance, Scottish Widows didn't do anything wrong in the way that Mr B's pension was invested.

Market volatility

I can understand why Mr B was very disappointed at the fall in value of his pension in the period before he encashed the policy.

It is the case that during 2022/2023 there was significant market volatility. Scottish Widows has explained to Mr B that this was caused by a range of factors including the rate of inflation, interest rates and the general short/medium term economic outlook. It said all of these factors were outside of its control.

I've also looked at what Scottish Widows told its planholders in their annual statements issued in 2023. It explained there was a lot of uncertainty caused by issues such as the war in Ukraine and rising prices. This had created short-term turmoil or volatility in financial markets. It also referred to how bonds in particular had been impacted by this uncertainty.

Mr B thinks that in light of these market conditions Scottish Widows should have changed its investment strategies for his pension plan. He also thinks it shouldn't have been able to apply charges when the investments were producing negative returns.

I've thought about what Mr B has said here. However, Scottish Widows wasn't responsible for the investment choices which applied to Mr B's pension. As I've said above it hadn't acted as his financial adviser. It's role was to invest his funds in line with the investment strategy he'd agreed to. And it was also entitled to apply charges in line with what'd been agreed. I've not been provided with any information which suggests it didn't act in line with the agreed investment strategy or that it applied charges it wasn't entitled to apply.

It is the case that all investments carry risk. Scottish Widows hadn't provided any guarantees to Mr B that his policy would increase in value. And although I can understand why the fall in the value of the policy was extremely disappointing for Mr B, I don't think Scottish Widows was responsible for the factors which caused the fall in the value of his pension. Those factors were not within its control.

Having considered everything here, I'm not persuaded, on balance, it's fair or reasonable to hold Scottish Widows responsible for the fall in the value of Mr B's pension. I don't require it to have to do anything further to resolve this complaint.

My final decision

For the reasons given above I do not uphold this complaint about Scottish Widows Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 26 November 2024.

Irene Martin
Ombudsman